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SIPDIS

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SUBJECT: CAUTIOUS OPTIMISM IN WESTERN BLACK SEA REGION

REF: ANKARA 981

Classified By: POL Counselor Daniel O'Grady for reasons 1.4 (b,d)

11. (C) Summary: Bartın, Zonguldak, and Karabük, provinces in Turkey's western Black Sea region, form part of Turkey's industrial heartland. The provinces' largely unionized workers provide coal, iron, steel, and tin for heavy industry not only in Turkey, but in Europe and other markets. With the global economic downturn grinding to a halt the demand for automobiles, appliances, airplanes, and other heavy industrial products, we expected to find the three provinces to be in a world of economic hurt. That all three provincial capitals and the shipyard and steel town of Ereğli, in Zonguldak province, had voted against the incumbent party in March's local elections seemed to be proof of discontent in the region. However, what we found was a surprise: although the national economy has contracted over 13 percent since the beginning of the year, the three provinces have only suffered a five percent contraction. Moreover, officials and businesspeople are optimistic about the future. Their story is a morality play in how good governance, experience, and pragmatism can take the edge off times of hardship. End Summary.

POLITICS AS USUAL  
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12. (C) All four of the towns we visited -- Bartın, Zonguldak, Ereğli, and Karabük -- voted against the incumbent party on March 29. Bartın replaced a Democratic Left Party (DSP) administration with a Nationalist Action Party (MHP) mayor. Karabük voted out a Justice and Development Party (AKP) administration in favor of an MHP mayor. Both Ereğli and Zonguldak ousted the AKP in favor of Republican People's Party (CHP) candidates. These apparent upsets were actually less a revolt against incumbents than a return to form following unusual circumstances resulting largely from unusual 2007 general election results. The previous mayors of both Bartın and Karabük were elected to Parliament in 2007, leaving vulnerable acting mayors in office. The "new" mayor of Ereğli, Halil Posbıyık, had been mayor for years before, only leaving office to run (unsuccessfully) for parliament in 2007; he returned to the mayor's office easily. Only in Zonguldak was a full-term incumbent turned out by dissatisfied voters. But even there, the CHP winner, İsmail Esref, was the same man who lost the seat in 2004 local elections. He claims that, in 2004, Zonguldak voters thought voting for a mayor from the same party that ran the national government would bring advantages to the province, which turned out not to be true. "The voters gave me a nice, long vacation," he joked, "and then welcomed me back happily."

13. (C) The most impressive of the four mayors was Karabuk's Rafet Vergili, who despite being an MHP provincial administrator for many years, has only now entered electoral politics. As a local businessman, he complained that he was having trouble finding qualified local employees and that few outsiders wanted to relocate to Karabuk. Part of the problem was that Karabuk had no university, so talented students would go to Istanbul, Ankara, or Zonguldak for their higher education and then never return. The previous administration had fixed this problem; Karabuk's new university has just finished its second year in operation. During his election campaign, Vergili unveiled a program to keep graduating students in Karabuk in both the short- and long-term: a total remaking of the city center. The construction would provide jobs for architects, civil engineers, city planners, and workers in the short term, and the new buildings -- a library, an organized industrial zone, a central bus terminal, and a culture center, to name just a few -- would provide both work and cultural opportunities in perpetuity. The mayor insists that he has found private investors interested in the project, despite the economic downturn. He argues that the potential return in terms of a larger local market for goods and services combined with low land and construction costs make good sense for local investors despite the economic crisis.

#### LOOKING PAST THE ECONOMIC CRISIS

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14. (C) Though Karabuk's is the most radical economic plan,

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all the mayors are bullish on development and investment. Each of the mayors identified unemployment as the region's main problem and enumerated projects to develop their cities and provide long-term employment opportunities. Eregli's mayor Posbiyik is working on a project to bring a railroad line capable of carrying heavy freight to his town, thereby cutting the transportation cost of outgoing steel and tin. The mayor of Bartin, Cemal Akin, noted that a new airport -- located in Zonguldak province but closer to Bartin than to Zonguldak -- would revive the businesses in Bartin's organized industrial zone. All of the mayors were also enthusiastic about plans for developing the Filyos River Valley to attract energy plants, shipyards, and a variety of factories. Mayor Akin was especially hopeful that the project would attract factories for processing metals into appliances and household goods, pointing out that it is not cost effective to ship raw steel and tin out of the region only to buy it back in the form of car parts, washing machines, and cookware.

15. (C) The mayors as a whole were confident that their political affiliation would not damage relations with either the central government or with provincial assemblies, all run by the AKP. Each asserted that the politicians in the region only think in terms of party rivalry during elections, and have always worked together to the benefit of their provinces. All four were in agreement that the economic decline seen elsewhere in the country was not a hardship in the Western Black Sea. They pointed to the high number of retirees in the region as part of their insulation from the downturn: their assured stable incomes from the central government keep demand high so that local shopowners, restaurateurs, and tourist areas are not feeling the crunch. The mayors also noted that the central government's temporary reduction of taxes on automobiles and appliances gave these retirees the opportunity to buy big-ticket items earlier than they might have otherwise. Zonguldak mayor Esref pointed out, however, that this would reduce the central government's income, and that he expected much of the shortfall to be met by reducing the provinces' budgets.

#### BUSINESSMEN'S VIEWS

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16. (C) Businessmen in the region were likewise upbeat about their economic future. They echoed the politicians' views that the economic downturn has not hit the region too hard and that their economic future was bright. Salih Demir, President of the Zonguldak Chamber of Commerce and also the owner of a coal mine, said that the Filyos projects would be a great boon for the region. He said that the Chamber of Commerce had worked hard to attract companies to develop a "Turkish Silicon Valley" in the province, but because the region did not yet have the necessary industrial capacity, foreign investors decided to invest in Istanbul province instead; he was optimistic that the Filyos project would create the necessary capacity and allow the region to become the production area for some other high-end technological product, such as hybrid cars or high definition televisions.

17. (C) The Director General of Karabuk Iron and Steel (KarDemir), Osman Kilavuz, was upbeat, but more guardedly so. He said that the drop in European demand for metals forced the companies in the area to make some difficult decisions. Their cooperation amongst themselves and with the labor unions allowed them to find a way to weather the crisis in the short term. The union workers agreed to wage reductions, whereas the various companies agreed to cut the prices for their products across the board. As a result, no workers lost their jobs and all the companies are functioning at near-capacity. The downside, however, is that whereas his company made \$200 million in profits in 2008, he expects to have no significant profit this year, a situation that cannot continue to the medium term. He was, therefore particularly interested in economists' assessments of how long the economic crisis is projected to last.

18. (C) Kilavuz also took the opportunity of our meeting to air his frustrations about dealing with American companies. He is pointedly bitter that our visa requirements -- from having to go to either Istanbul or Ankara to sit in a visa interview, to the fees involved -- make visiting the US

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expensive, onerous, and "humiliating." He contrasted our visa policies with those of Canada and the European Union, which he claimed were far more business-friendly. He is also baffled at the absence of US companies offering to sell raw materials to KarDemir. He claims that although his company buys the entire output of a coal mine in Bartın, he still needs to supplement his coal stock with foreign coal, which he buys from Eastern Europe, Russia, or (rarely, because of poor quality) China. He rarely attracts US exporters, despite the high quality of US coal.

COMMENT

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19. (C) It is hard at first glance to square the optimism in the western Black Sea with the bleak economic data that continues to come out of Turkey as a whole. One key point is the joint effort by businesses and unions to avoid job losses. This tracks with anecdotal reports from other parts of Turkey of businesses and unions working together to end overtime and trim both wages and profits to keep workers on the job. Such agreements work in conjunction with targeted GOT incentive programs that helped clean out inventories of big-ticket consumer goods, allowing factories to keep in operation, albeit at low levels. Another key point is that Turkey is still a low-cost but medium-high quality producer, and while exports to the EU -- particularly of steel and other heavy industrial products for this region -- have dropped, they nonetheless can continue at lower production levels. The key question, as noted by KarDemir's Kilavuz, is "How long will the slump last?" If exports do not revive in 2010, it will be difficult to avoid layoffs for these companies, even if domestic demand recovers. With no recovery, targeted incentives will have only served to

postpone the drop in consumption. Non-farm unemployment (seasonally adjusted) already hit 18.6 percent in April and may not yet have reached its peak, making increasing unemployment potentially the biggest economic policy headache for elected officials of all parties.

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JEFFREY